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THESIS

WHAT ARE THE PRINCIPAL DEFICIENCIES INVOLVED IN THE MANAGEMENT OF GOVERNMENT FURNISHED PROPERTY AND HOW MIGHT THESE DEFICIENCIES BE CORRECTED?

by

Edward Morgan

June 1989

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This thesis assesses the principal deficiencies in the management of Government furnished property (GFP). The Department of Defense (DOD) policy of providing Government property to contractors has been under constant Congressional review. The thesis presents a brief history, benefits, and some of the many Government Accounting Office and DOD agency audit reviews concerning GFP. Data were collected from the six Defense Contract Administration Services Plant Representative Offices (DCASPROs) in the Los Angeles region.

The data collected indicated that there are nine principal deficiencies in the management of GFP. They are: maintaining trained staff personnel,

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contractors' inaccurate record keeping, inadequate dispositioning of GFP, lack of GFP warranty procedures, lack of contract preaward and postaward involvement of Property Administrators, personnel shortage, GS grade level parity, insufficient upper-management support from contractor, and inadequate GFP storage. The study concluded that the single most important requirement for success in a Government property management system is a strong and honest working relationship with open communication between the Government's and contractor's Property Administrators.

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What are the Principal Deficiencies Involved in the Management of Government Furnished Property and How Might These Deficiencies Be Corrected?

by

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Lieutenant Commander, Supply Corps, United States Navy
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The data collected indicated that there are nine principal deficiencies in the management of GFP. They are: maintaining trained staff personnel, contractors' inaccurate record keeping, inadequate dispositioning of GFP, lack of GFP warranty procedures, lack of contract preaward and postaward involvement of Property Administrators, personnel shortage, GS grade level parity, insufficient upper-management support from contractor, and inadequate GFP storage. The study concluded that the single most important requirement for success in a Government property management system is a strong and honest working relationship with open communication between the Government's and contractor's Property Administrators.

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I. INTRODUCTION

A. GENERAL INFORMATION

Deficiencies in the management of Government Furnished Property (GFP) has been a long standing problem of the Department of Defense (DOD). Government contractors are provided billions of dollars worth of GFP to offset the Government's cost on services, development, and production contracts. These contractors are responsible for maintenance, storage, disposition and management of this property. [Ref. 1:p. 45-1]

Since 1967, the General Accounting Office (GAO) has repeatedly reported serious problems with Government contractors' GFP management practices. The inappropriate use of GFP in contractors' commercial operations, failure to report excesses, inventory discrepancies, inadequate record keeping and improper requisitioning have been cited as some of the major deficiencies in GFP management.

GAO has issued numerous reports containing GFP management deficiencies and recommendations for corrective action. The problems associated with the management of GFP today are the same as those cited 22 years ago. DOD has a responsibility to resolve GAO findings of GFP deficiencies that first surfaced in 1967. [Ref. 2:p. 9]

DOD current policy is to reduce and eventually eliminate the use of some types of GFP. Also, DOD is implementing tighter auditing procedures by Federal Government audit agencies in an attempt to increase efficiency in contractors' GFP management operation. The management problems of GFP are primarily observed at the field level. Therefore, the primary focus for corrective action is directed at the field level activities. [Ref. 3:p. 1]

B. OBJECTIVE OF THE RESEARCH

The objective of this research is to identify the deficiencies in the management of GFP at the field level and recommend actions for resolution of the problems. Identifying these deficiencies and possible solutions, will assist in improving overall GFP management.

C. RESEARCH QUESTION

To achieve the stated objective, the following research question is presented: What are the principal deficiencies involved in the management of Government Furnished Property and how might these deficiencies be corrected? Answers to the following subsidiary questions were also addressed to achieve the stated objective:

1. What are the principal deficiencies in the management of GFP?
2. Are the majority of the deficiencies in GFP discovered through the system survey?

3. Are the majority of the GFP deficiencies new?

4. Has corrective action on deficiencies been implemented and validated for adequacy?

5. What regulations hinder the GFP management operations?

D. SCOPE

The scope of this thesis is limited to the property management of the Defense Contract Administration Services Plant Representative Offices (DCASPRO) within the Defense Contract Administration Services Region (DCASR) Los Angeles, California. These activities are under the cognizance of the Defense Logistics Agency (DLA). The researcher did not attempt to acquire data concerning GFP management deficiencies below the DCASPRO organizational level.

E. METHODOLOGY

The research methodology used in the data collection included telephone and individual interviews with experienced professionals at the DCAS headquarters, region, and field level activities. Other data collected for this study were acquired through the following sources:

1. Defense Logistics Studies Information Exchange (DLSIE)

2. Defense Technical Information Center (DTIC)

3. Defense Logistics Agency instructions, policies and procedures

4. Department of Defense Federal Acquisition Regulation Supplement (DFARS)

5. Federal Acquisition Regulation (FAR)

6. General Accounting Office (GAO) Audit Reports
7. U.S. Congressional Hearings
8. Naval Postgraduate School Library

Interviews were conducted with six DCASPRO Property Administrators in the Los Angeles region and other knowledgeable individuals associated with the management of GFP.

F. ORGANIZATION OF THE STUDY

Chapter II describes a narrative of events detailing DOD's history on GFP use. Also, this chapter will present the DOD's strategy behind the use of GFP and the Congressional concerns over problems encountered by DOD. Outlined in Chapter III are the regulations, policies and procedures that are used to regulate and control Government contractors' actions in managing GFP. Additionally, the chapter includes information concerning the Government's and contractors' Property Administrators GFP responsibilities. Chapter IV presents the survey results acquired from interviews with Property Administrators within the DCAS Los Angeles region. The analysis of the results is discussed in Chapter V. Chapter V also contains a listing of the researcher's conclusions, recommendations and areas for additional research. Key definitions that pertain to the concepts used in this study are listed in Appendix A.

II. BACKGROUND

A. HISTORY

Furnishing of Government property to contractors has been a long standing practice dating from before World War II. As a policy during the early 1930's, the Government managed the procurement of GFP and its integration into weapon systems during manufacturing. [Ref. 4:p. 103] This policy started on a large scale with two categories of GFP. They were facilities and military property.

1. Facilities

World War II caused the Government to increase its action of furnishing property to defense contractors. As the Government's needs increased, the need to expand the industrial base became a necessity. The Government was forced to provide facilities as a means to remedy the increasing problem of expanding the industrial base. Contractors forced this policy on the Government because of their small industrial production capacity, lack of capital for expansion, and a general reluctance to accommodate the Government. Lastly, contractors believed that the war would not last long enough to sustain an extended period of business. [Ref. 4:p. 102]

As World War II progressed, the use of Government facilities by contractors grew at a surprising rate. During

the war, the Government provided contractor facilities valued at over seventeen billion dollars. [Ref. 4:p. 102]

2. Military Property

During the early stages of World War II, military property was also provided to contractors for aircraft production. This type of Government property is designed for military operations. It consists of end items and components of weapon systems as well as support equipment. Normally, these items are not readily available from commercial sources. Some examples of military property furnished were:

- Bombing and navigation subsystems
- Radar units
- Electrical power supply units
- Ground maintenance equipment

The Government continued furnishing this type of GFP with the procurement of tanks, ships and other similarly complex weapons. This action of the Government became a normal practice because of its early successes. [Ref. 4:p. 103]

Presently, the Government wants to reduce or totally eliminate, for some property types, the amount of GFP provided to contractors. The Government is forcing contractors to invest their own funds for property necessary to complete a contract. The policy is a drastic change from the Government's earlier position. Evidence of the new policy is presented in Public Law 99-500. It states that contractors may not be

reimbursed for more than 50% of their investment in production special test equipment (STE) and production special tooling (ST). The balance must be amortized over future procurements. Under the Government's old policy, the contractor would be fully reimbursed for his acquisition of ST and STE and they would become GFP. The payment method would depend upon the payment terms agreed upon in the contract.

B. BENEFITS OF GFP

As mentioned earlier, the benefits from the use of GFP were derived by the Government even prior to World War II. Benefits acquired are many but normally vary by the contract type, the item being procured, and other circumstances unique to the acquisition. Listed below are several of the established benefits:

- Economic benefits
- Increased standardization
- Security risk reduction
- Increased competition
- Improved support of small businesses
- Expedited production
- Allocation of scarce assets
- Maintenance of the industrial base [Ref. 5:p. 31]

1. Economic Benefits

To obtain a more favorable price is the primary reason for furnishing property to contractors. Contractors costs are reduced if a contractor does not have to acquire or build certain types of assets that the Government already owns. [Ref. 6:p. 31] In many instances, the Government can buy certain parts at lower prices than contractors. Parts procured in large quantities, lower prices acquired through negotiations, and accessing contractors' cost or pricing data are some key examples of measures to get more favorable prices for items the Government purchases. Overhead cost and profit reductions are other economic benefits achieved by the Government in proving GFP. [Ref. 4:p. 38]

2. Increased Standardization

The use of GFP in major system dual sourcing can reduce the problem of parts compatibility. For example, the Government can provide needed parts to each end item producer, thereby reducing the chance of a part compatibility problem in the event of a part failure. Under a dual source concept, this problem can occur when both contractors are allowed to independently manufacture or purchase their own parts without coordination or the use of GFP.

Lower life cycle costs, higher reliability, simplified training, proper documentation, and increased logistic support base stability are additional benefits acquired through parts

standardization by using GFP. Parts standardization permits critical support capability that is essential between the military services of the United States and of our allies. Standardization is a goal of the Government and providing GFP can be a key aspect to the success of it. [Ref. 4:p. 39]

3. **Security Risk Reduction**

Many Government programs are vital to the protection of the country. These programs often require the use of various degrees of classified components. Components of this nature can only be provided by the Government. This GFP procedural process assures secret technological integrity of these tightly control components.

4. Increased Competition

Many companies can not afford to invest in special machinery, tooling and equipment necessary to make certain parts that are required in a variety of systems needed by the Government. Unless the Government provides these components or equipment as GFP to manufacture items needed, these firms will be unable to compete for Government contracts. Furnishing GFP can help the Government to eliminate a sole source producer situation. Increasing the number of offers on a contract by providing GFP, allows the Government to benefit from a price reduction caused by the increased competition.

5. **Improved Support of Small Business**

The desire of the Congress that small business should receive a fair share of the Government's procurement dollar is expressed in the Federal Acquisition Regulation and the Small Business Act. Implementing these policies, the Government furnishes GFP to small businesses allowing them to overcome cost barriers that previously did not permit participation in Government procurement. [Ref. 8:p. 658]

6. **Expedite Production**

In many cases the equipment, tools and material necessary to produce items required by the Government are long lead time procurements. If the Government can make such items available from existing stocks, the leadtime for end item production may be reduced by substantial margins. [Ref. 6:p. 31]

7. **Allocation of Scarce Assets**

Some Government contracts require items that are critical in nature and limited in supply. Under certain circumstances, the Government can only guarantee availability of these items required at the time and quantity necessary to complete a contract. In these cases, items of this nature must be furnished as GFP.

8. **Maintenance of the Industrial Base**

As the country gained experience through its wars and major conflicts, the Government has learned that many types and

quantities of tooling and industrial equipment must be readily available at all times. "Private industry is neither willing nor able to maintain the investment in equipment required for this purpose." [Ref. 6:p. 31]

> The defense industrial base has been plagued with several problems over the last few years including aging equipment, diminishing sources, lengthening lead times, long lines of supply, and reliance on foreign sources. [Ref. 9] The defense industrial base is extremely important from the stand point of maintaining competitive sources of supply for goods and services as well as the more critical need for the capability to increase production dramatically during surge and mobilization demands. When firm's are unwilling to participate in DOD business, the industrial base is seriously affected. [Ref. 10:p. 45]

One of the Government's main objectives is to sustain the industrial base at the highest state of readiness possible in the event of a crisis. The Government can not afford to allow its industrial base to be limited or incapable of handling surges in production necessary for war mobilization. Consequently, the Government provides GFP in term of facilities, tooling, equipment, and other assets, to support the industrial capability.

C. SUMMARIES OF CONGRESSIONAL, DOD, AND GAO REVIEWS

Because of DOD's long standing problems with controlling and accounting for GFP provided to contractors, the Department of Defense has received numerous reviews and audits by Congress, GAO and its own internal audit agencies. A summary

of these reviews is provided below outlining problems encountered by DOD with GFP.

1. Congressional Reviews

On 23 April 1968, the Subcommittee of the Joint Economic Committee commented that DOD had not established efficient controls over the inventory of an estimated $15 billion worth of property furnished to contractors. Also, the accounting systems the contractors were utilizing did not provide adequate financial control. The Committee stated that there were several instances where acceptable physical inventories of Government property were not properly taken. [Ref. 2:p. 36]

In 1978, the House Committee on Appropriation expressed concerns over DOD's poor performance in controlling contractors' actions of requisitioning material from the Defense supply system. The Committee indicated that this means of providing Government material to contractors was ineffective and recommended that the Government permit contractors to continue ordering from the supply system but on a cash basis. DOD's action to correct the problem called for adding additional Government personnel at contractors' plants and inventory control points to monitor and regulate the contractors' requisitioning practices. [Ref. 2:p. 36]

On 1 October 1981, the House Subcommittee of the Committee on Government Operations pointed out that the DOD's

GFP system problems were caused by their own mismanagement. Some of the problems mentioned that supported the statement were:

- No standard system used to control shipment of equipment from Defense activities to contractors.
- Unauthorized use of GFP on contractors' commercial work.
- Large quantities of GFP were found on contractors' sites without proper inventory record documentation.
- Property furnished to contractors was being sold back to the Government.
- GFP was found in excess of need. [Ref. 11:p. 4]

A report by the Subcommittee on Legislation and Nation Security in December 1981 charged DOD with inadequate control of billions of dollars worth of GFP provided to contractors, and DOD's policy of almost total reliance on contractors for accounting controls of GFP were ineffective. This policy also allowed contractors to accumulate GFP in excess of need. Unauthorized commercial use and selling of GFP back to the Government were again cited as problems caused by DOD's deficient management procedures. [Ref. 12]

Problems concerning Government property provided to contractors was addressed in November 1983 by the Committee on Governmental Affairs. The Committee's main focus dealt with the Government's procedure for purchasing of spare parts and support equipment which eventually was furnished to contractors as GFP. The review centered on the subject of over pricing,

but still delineated the Government's inadequate actions to produce effective contract auditing procedures which resulted in more contractor abuse. [Ref. 13:p. 110]

The House Subcommittee of the Committee on Government Operations in March 1985 again criticized DOD's poor GFP management practices. The chairman of the committee pointed out that virtually no progress had been made by DOD in correcting deficiencies noted in the 1981 hearing. Congressman Brooks, the Committee chairman, stated: "We intend to continue monitoring DOD's action to ensure that these deficiencies are firmly corrected." [Ref. 14:p. 120]

In March 1986 and 1988 (the latter is the most recent hearing) DOD again came under harsh criticism by the committee. Chairman Brooks again stated that DOD showed a distinct lack of substantial progress in correcting GFP accountability and misuse problems by contractors even after the two previous hearings. There were several comments made by other committee members indicating that DOD was simply ignoring the issue and was not putting forth full efforts in correcting the problems. The chairman also commented that possible cuts in DOD's budget might be necessary to force prompt and viable solutions to the GFP management problems.
[Ref. 3]

2. GAO Reports

The initial GAO report on DOD's GFP problems was issued in 1967. Since then, there have been nine other reports. Each of the reports outlined problems ranging from simple record keeping to enormous dollar value losses of GFP by contractors with no reimbursement to the Government.

The latest GAO report dated May 1988 stipulated similar past problems of deficient management practices by DOD. Results of the audit were briefed to the Senate Committee on Governmental Affairs on 21 March 1988 by Frank C. Conahan, Assistant Comptroller General, National Security and International Affairs Division. The audit focused on the following areas.

- The effectiveness of DOD's implementation of the basic Government policy to rely on contractors to provide the property needed for Government contracts.
- The adequacy of management controls established to validate and approve contractor requisitions.
- The adequacy of Government oversight over property in the possession of contractors. [Ref. 2:p. 1]

On 26 May 1988, Mr. Conahan forwarded a letter to Mr. Frank Carlucci, Secretary of Defense, summarizing the audit report on GFP management. Mr. Conahan recommended two essential means of implementing and monitoring corrective actions to problems cited in the audit:

- Establish specific milestones for action.
- Direct the DOD Inspector General to perform independent monitoring and report Services' progress in correcting problems involving contractors' GFP management practices. [Ref. 2:p. 2] Appendix B contains Mr. Conahan's letter.

3. Defense Agencies Reviews

There have been three Defense agency reports on DOD's GFP management problems. These reviews were conducted in 1976, 1978, and 1984 by the Defense Supply Agency, Defense Audit Service, and the DOD Inspector General respectively. [Ref. 2:p. 25] Each of these reviews focused on Government property provided under maintenance contracts. The reports delineated problems such as improper use of GFP for commercial work, unreported excesses, and poor surveillance by DOD of contractors' Government property management practices.

4. President's Council on Integrity and Efficiency

This report summaries similar problems surfaced within several Government agency reports. The concluding statement indicated that DOD's internal controls over the acquisition and accountability for Government property in the possession of contractors were weak. The result of this weakness caused unnecessary cost and loss of Government property. Additionally, the report stipulated that the Government had given contractors few incentives to finance needed property or to exercise prudence in acquiring property with Government funds. [Ref. 15]

5. Air Force Reviews

Seven reviews have been completed by the Air Force Audit Agency. The initial review was conducted in 1978 and the latest review was conducted in 1987. As with the previous reviews, it surfaced problems of inaccurate record keeping, unreported excesses, and improper financial accountability systems to control GFP. Unauthorized commingling of contractor and Government material was also listed as a recurring problem within each audit performed. [Ref. 16:p. 28]

6. Army Reviews

In each of the seven reviews by the Army from 1976 to 1983, there were consistent indications of the following problems concerning GFP:

- Surveys of contractors' property control systems were not performed annually.
- Records indicated millions of dollars worth of inventory adjustments.
- Inadequate subcontractor controls.
- Noncompliance with regulations governing GFP.

The 1983 review pointed out notable improvements in contractors' accountability of GFP, but also stipulated that there was a continued reluctance by Government Property Administrators to initiate an adequate annual survey in accordance with the Federal Acquisition Regulation. [Ref. 17:p. 30]

7. Navy Reviews

A total of seventeen Navy reviews have been completed on problems associated with the management of GFP. Two reviews were conducted by the Navy Inspector General in 1978. The reports showed a combined total of $8 million worth of GFP that was in excess of actual requirements. Both reports cited that there were no specific contractor procedures for handling or disposing of excess Government property. [Ref. 18:p. 34]

Fifteen reviews were conducted by the Naval Audit Service from 1976 to 1987. From the fifteen different Navy activities reviewed, the following is a summary of the major problems that were surfaced:

- $56.6 million in excess GFP was discovered and 10% of this amount could have been used to satisfy other high priority back ordered system requirements.
- $5 million was needlessly expended for the same assets in excess at other contractor sites.
- No or infrequent surveys by Government Property Administrators.
- Inadequate contractor property controls.

In the 1987 report, it stated that a contractor had management control over $3.4 billion worth of GFP without a full time Property Administrator performing supervision over the contractor's Government property management system. [Ref. 18:p. 35]

D. SUMMARY

This chapter presented the reasons why the Government established the policy of providing property to contractors and the benefits achieved from the policy. Over the years, Government acquisitions have increased tremendously causing extensive use of GFP in procuring new systems. This increased use has generated numerous problems with the management of GFP in the hands of Defense contractors valued at in excess of $50 billion.

Due to the many problems encountered in controlling GFP, DOD changed its persistent policy of providing GFP to contractors in the mid-1960's. The benefits of the old policy, in many cases, fell far short of the ever growing disadvantages. DOD has had extreme difficulties in implementing its new policy of requiring contractors to finance their own property requirement needs. The implementation problem is mainly caused by inherent practices of DOD personnel with the old policy.

Chapter III will outline the regulations and procedural practices pertaining to GFP. It will detail the responsibilities of key DOD officials that are charged with carrying out these procedures, controls and management duties.

III. GOVERNMENT FURNISHED PROPERTY REGULATIONS, CONTROLS, RESPONSIBILITIES, AND PROCEDURES

A. INTRODUCTION

This chapter presents a general overview of the regulations governing GFP. Information on the Government's and contractors' responsibilities will be addressed. Also, GFP accounting and procedural controls are discussed in conjunction with a review of contract administration that includes Government property management.

B. GOVERNMENT FURNISHED PROPERTY REGULATIONS

Title 10 U.S. Code 2701(a) directs that Government property records must be established and accurately maintained. These records will reflect pertinent information to facilitate adequate control of the property. This rule was levied to ensure public trust in the Government to accurately account for Government assets. [Ref. 19:p. 26]

The Federal Acquisition Regulation (FAR) Part 45 describes the governing requirements for the management, control and accountability of Government property. The Government's and contractors' responsibilities pertaining to GFP are outlined. The definition of the five major types of GFP are also listed in the regulation. FAR Part 52 provides the clauses to be utilized and the required conditions necessary for incorporating them into Government contracts. DOD and other

major Government agency established supplements to the FAR detail special property requirements unique to the Services or agencies and provide amplification to the FAR guidance.

The FAR directs that contractors must acquire all property necessary to perform Government contracts. The exceptions state, as indicated earlier, if a contractor is unwilling to provide property or is unable to, then GFP can be furnished by the Government. Secondly, the Government can furnish property to a contractor if a cost benefit analysis proves favorable to the Government. [Ref. 4:p. 36]

C. GOVERNMENT FURNISHED PROPERTY CONTROLS AND RESPONSIBILITIES

1. Controls

Contractors are responsible for the control, protection and maintenance of GFP in their possession unless otherwise directed. The contractors' records are the Government's official property records of GFP. Duplication of these records is not allowed. Under certain conditions, the Government will establish and maintain records of GFP utilized by contractors.

> Contracts may provide for the contracting officer to maintain the Government's official property records when the contracting officer retains contract administration and Government property is furnished to a contractor (1) for repair or servicing and return to the shipping organization (2) for use on a Government installation, (3) under a local support services contract, (4) under a contract with a short performance period or involving Government property having an acquisition cost of $50,000 or less, or (5) when otherwise determined by the contracting officer to be in the Government's interest. [Ref. 1:p. 45-2]

2. Contractor's Responsibilities

The overall responsibility of Government property is assumed by the contractor in accordance with the requirements of the contract pertaining to the Government property. Subcontractors utilizing Government property are also governed by this provision. The prime contractor must monitor his subcontractors for compliance with Government property regulations and procedures. The contractor is responsible for the development and implementation of a property management system with approval by the Government. Some of the general functions the contractor performs are:

- ensure the property is used only for the specific purposes listed in the associated contract.
- maintain detailed accounting of GFP use.
- dispose of GFP as directed.
- promptly report excess GFP property.
- protect Government's ownership interest.
- expeditiously report loss, damage or destruction of GFP. [Ref. 6:p. 33]

The regulations, in many cases, indicate that some of the responsibilities listed above involve actions and decisions on the part of the contracting officer. The actual use of all GFP must be delineated in a contract or approved by the contracting officer in writing. Under certain conditions, a contractor can be relieved of responsibilities for GFP in his custody. The five primary reasons are listed below:

- reasonable consumption of property in the performance of the contract.
- property retained by the contractor after providing consideration to the Government.
- property that is sold by the contractor with the proceeds credited to the Government.
- shipment of GFP from the contractor's facility when directed by the Government. This does not apply to shipment to subcontractors.
- a contracting officer's determination concerning the loss, damage or destruction of GFP. [Ref. 1:p. 45-12]

3. Government's Responsibilities

The Government responsibilities are covered in the first part of the Government property clause. If the Government fails in these responsibilities, the contractor has a very strong legal case against the Government. Once the contract is finalized, which includes the appropriated property clauses, the Government is responsible for getting the property to the contractor on time, in suitable condition for intended use, and in the quantities specified in the contract. [Ref. 4:p. 46] In reality, the Government furnishes a warranty of timeliness and suitability of GFP. Under these contract conditions within the commercial arena, failure to live up to the terms and conditions of a contract are grounds for a suit for breach of contract. The Government, through its sovereign rights under the property clause, is not subject to suit if performance failure occurs. The contractor is, however, entitled to an equitable adjustment as an alternative remedy

performance failure occurs. The contractor is, however, entitled to an equitable adjustment as an alternative remedy for the contractor's inconvenience caused by the Government's delinquency in upholding its responsibilities under the contract. Also, the Changes clause allows the Government to make changes to the Government property contract arrangement. [Ref. 6:p. 33]

It is the Government's responsibility to establish an environment that requires mutual understanding of each party's responsibilities. The Government must ensure contracts are written to clearly identify the property being furnished and the contractor's duties concerning GFP management and control.

4. Plant Clearance Officer's Responsibilities

Plant clearance operations is the primary function of the Defense Property Disposal Service (DPDS) at Battle Creek, Michigan. Its mission is to distribute DOD owned material and equipment to achieve optimum reutilization. Each activity holding excess Government property will report it to DPDS for redistribution. [Ref. 6:p. 29]

The Plant Clearance Officer (PLCO) is the on site Government representative charged with directing the removal of excess Government property at the contractor's plant by redistribution, donations, sales, or abandonment. Some other functions he performs are:

- determine disposal method.
- maintain surveillance of contractor-conducted sales.
- evaluate the adequacy of the contractor's procedures for handling property disposal.
- approve the method of sale, evaluate bids, and approve sale prices for contractor-conducted sales.
- advise the contracting officer on all property disposal matters.
- advise and assist, as appropriate, the Property Administrator, contractor's inventory control manager, and other Federal agencies or higher headquarters in all actions relating to the timely disposal of contractors' Government property inventory.

In some instances, the magnitude of plant clearance actions warrants the authorization of the contractor to perform certain plant clearance functions. This authorization can be utilized only if there is a Government plant clearance official on-site to monitor the contractor's actions. The plant clearance functions of the contractor must be clearly outlined in a contract. The contract will specify that the agreement can be unilaterally cancelled in whole or in part by the Government through written notification of the contracting officer. [Ref. 20:p. 45.6-1 and 45.70-1]

Excess Industrial Plant Equipment (IPE), with an acquisition value of $15,000 or more, must be reported to the plant clearance officer by the contractor. The Plant Clearance Officer will forward the appropriate documentation to the Defense Industrial Plant Equipment Center (DIPEC) at Memphis,

Tennessee. DIPEC authorizes the screening, new procurement, redistribution, and disposition through the Plant Clearance Office for this type of Government property. [Ref. 20:p. 45.6-1]

5. **Risk Responsibility for Loss of GFP**

The pricing arrangements in the contracts determine the risk of loss of GFP. With cost type or noncompetively negotiated fixed price contracts, the Government insures itself for the majority of the risk. Even under these types of contracts, the Government will specify in a schedule provision certain risks to be insured by the contractor. Normally, the contractor can be held liable for willful misconduct or lack of good faith by top managerial personnel under cost type or noncompetively negotiated fixed-price contracts. This is very difficult for the Government to prove unless there is a criminal act such as arson, theft, or misappropriation which clearly is attributed to top management. Proof of negligence alone does not establish willful misconduct or lack of good faith. Therefore, the Government must establish that the contractor made a conscious failure to use the necessary means for prevention of the loss or damage. A competitive fixed-priced contract allows the Government to hold the contractor liable for any loss or damage to GFP regardless of whether there is negligence involved. [Ref. 4:p. 45]

In the event of loss or damage to Government property, the contractor is required to report it to the Property Administrator immediately. The Property Administrator will investigate the incident to establish the liability of the contractor. If a determination is made concluding that the risk is assumed by the Government, the Property Administrator must forward a letter to the contractor relieving him of the responsibility for the property damage or loss. If the Property Administrator concludes that the contractor is liable, he will forward the investigation results to the contracting officer for a liability declaration. The contracting officer is the only individual who has the authority to hold the contractor liable for loss or damage to GFP. Normally, the Property Administrator takes the action to relieve the contractor of GFP control responsibility. [Ref. 1:p. 45-12]

D. PROPERTY ADMINISTRATION OBJECTIVES

The objectives of property administration attempt to insure that the contractor's management efforts support contract performance, implement official policy, and encourage economical performance. The objectives are: [Ref. 6:p. 47]

. to prevent excessive consumption of GFP.

. to establish proper inventory levels.

. to achieve full utilization.

- to encourage appropriate redistribution in lieu of new procurement.
- to promptly identify and dispose of excess GFP.

These objectives have implied requirements that the contractor follow the provisions of the contract, FAR, and other DOD agency manuals and instructions as applicable. Lastly, the objectives incorporate the use of good judgement and sound business practices by the contractor to establish an efficient property management system. The Property Administrator will ensure that these objectives are enforced. [Ref. 6:p. 47]

E. CONTRACT ADMINISTRATION

The contract administration process starts after contract award. The functions performed by the contract administration organization are numerous and vital to the overall Government procurement process. Each distinct contract administration operational structure, type of contract, and item being procured will direct various performance requirements by the contract administration office.

The administration organization is comprised of specialists that offer expertise in the areas of engineering, transportation, security, contracts, cost and price analysis, production, quality, and property administration. The essential duties of these specialized personnel within the organization are listed below:

- review of the contractor's quality program.
- monitoring the contractor's costs, technical, development, and production performance for compliance with the contract specifications.
- evaluation of the contractor's financial condition.
- review of contractor engineering change proposals and configuration management.
- monitoring of contractor's safety compliance.
- negotiation of equitable adjustments.
- hosting the post award conference.
- monitor the contractor's property management controls. [Ref. 21:p. 41]

The Defense Logistics Agency (DLA) has nine Defense Contract Administration Services Regions (DCASR's), 39 Defense Contract Administration Services Plant Representative Offices (DCASPRO's), and 37 Defense Contract Administration Services Management Areas (DCASMA's) that perform contract administration services. This organization structure is extremely large, complex, and requires tight coordination controls.

There are essentially two types of Property Administrators in the DCAS system. The first type of Property Administrator is assigned the monitoring responsibilities of property management for all contracts held by a single contractor. This dedicated service is warranted because of the size and complexity of the contract awarded to a contractor. The property monitoring functions along with the many other

administrative duties are carried out under the DCASPRO organization structure. [Ref. 4:p. 47]

The second type of property administrator within the DCAS system has property monitoring responsibilities of other activities not controlled by a dedicated contract administration office. These Administrators are under the management control of the DCASMA's. These activities handle the majority of the property administration work load in the DCAS system. [Ref. 6:p. 13]

An exception to property administration by DCAS allows the Services to establish their own dedicated organization control over a contractor's GFP management system. The criteria for the exception are:

- the Service must have the highest dollar value of contract business with the contractor.
- the contractor must have a major weapon system significant to the national security interest under contract with the Service.
- the major weapon system must be in the development phase requiring close and continuous liaison with the contractor.

F. PROPERTY SYSTEM EVALUATION

The Property Administrator makes the determination that the contractor's procedures are adequate to maintain efficient controls over Government property in his possession. In accordance with the governing regulations, the contractor is required to develop a complete and concise set of procedures

by which his property management performance will be evaluated. The contractor will identify in his procedures each management official that has responsibilities or authority in the company's Government property management system. The contractor's property management system is segregated and evaluated in eleven categories. They are:

- acquisition
- receiving
- records
- storage and movement
- consumption
- utilization
- maintenance
- physical inventories
- subcontractor control
- disposition
- reports [Ref. 22:p. 44]

At the post award conference, the Property Administrator will meet and discuss with the contractor issues involving property administration responsibilities and problems. The name of the contractor's property representative, and the contractors' policies and instructions on Government property management will be requested for review and approval by the Administrator. [Ref. 22:p. 37]

The Property Administrator follow-on action will be the initiation of a Property Summary Data Record. This record will contain information on the type of contract, any property administration agreements, and the name and address of each person in the company that has property administration duties or authority. The summary record is filed in the contract's Property Control Data file. Other data contained in this file are:

- record of the initial review.
- surveys performed and working papers
- records of inspections and audits by other Government agencies.
- copy of the pertaining contract.
- contractor's receipts for Government Property [Ref. 23:p. S3:4]

If the property management system is inadequate for efficient control over Government property, the Property Administrator must forward written notification to the contractor identifying deficiencies discovered and the corrective action required. The notice will stipulate a reasonable time period for the contractor to resolve the deficiencies.

The Property Administrator must inform the contracting officer if the contractor does not comply with the deficiency notice. This notification must also be in writing containing all essential documentation, the contractor's position in

writing, and a recommended course of action for the contracting officer to take. The contracting officer has the authority to withhold progress payments or suspend the contractor depending on the severity of the deficiencies. After the deficiencies are corrected, the Property Administrator will issue the contractor a letter, with a copy to the contracting officer, stating that his GFP management system is approved.

1. System Survey Procedures

The Property Administrator is required by the regulations to establish an annual system survey plan at the beginning of each year. The purpose of a survey is to test and evaluate the contractor's Government property management system. The survey plan should address the current status of the contractor's control procedures, categories of property, inspection sites, inventory quantities, and contractor's responsibilities and duties for the survey. Normally, the Property Administrator survey schedule will span through the year covering each type of GFP in the possession of the contractor. Many large defense contractors have several sites that are located far apart. Consequently, the Property Administrator must consider these factors along with the type of GFP, value, and the peculiarity of the contractor's system. [Ref. 23:p. S3:5]

The Property Administrator should not dictate the actual framework of the contractor's management system through

the survey process, but only ensure that the contractor meets the requirements for controlling Government Property delineated in the Federal Acquisition Regulation. Also, the contractor's past survey performance should be taken into consideration in conducting the survey.

Technical support from within the DCAS organization must be planned and coordinated by the Property Administrator to develop an efficient annual system survey plan. Technical specialists must be called upon to assist the Property Administrator in the following areas:

. contractor's financial statement review
. maintenance of GFP
. loss, damage, or destruction in shipment
. special or hazardous material
. computer systems

The governing contract should outline all the technical support functions necessary for review and notification of service needed from the different activities. [Ref. 22:p. 49]

2. **Performing the Survey**

The sample size within each type of Government property is acquired by statistical sampling. The Property Administrator is required to achieve a 90% confidence level for the sample. The Defense Federal Acquisition Regulation Supplement provides a table with the confidence level already

calculated for ease of use by the Property Administrator. [Ref. 23:p. S3:6]

Once a survey starts, the responsible individuals for the Government and contractor should work diligently to complete the task without substantial interruptions. Advance planning and coordination of resource and personnel is required for a successful survey.

The contractor's acquisition performance is reviewed for proper requisition within the DOD's supply system. Proper priority designator assignments are checked for compliance. The overall focus in this area centers on the contractor's procurement of property that is charged to Government contracts by means of purchase orders, transfers from other contractors and transfers from the contractor's own inventory.

A review of the contractor's receiving practices requires a verification of receipt documentation and correct property classification of GFP. Receiving records are reviewed for item description, quantity and condition. Identification markings must be properly attached to GFP on receipt and checked as a part of the receiving category review during a survey. The contractor's procedures for handling reusable containers and misdirected shipments are other areas that are checked for compliancy under the receiving category.

The records review portion of the system survey involves a review of the contractor's accounting documentation

that indicates status and control over GFP. Normally, this category within the survey is the largest. Records have six functional areas:

- Custodial records
- Fabrication records
- Receipts and issues files
- Inventory control (real and personal property)
- Scrap and salvage records
- Multi-contract cost and material control system [Ref. 22:p. 45]

The protection, preservation, storage and movement of GFP within the contractor's warehousing operations are reviewed for adequacy. This portion of the system survey is called the movement and storage category. The contractor should store GFP where it is easily accessible and protected from the weather or against losses due to theft. Hazardous materials, precious metal, and sensitive item protection and controls are checked in order to determine contractor compliance with established procedures. Lastly, the internal movement of GFP by the contractor is evaluated for proper authorization, documentation, handling, packaging and safety requirements. [Ref. 23:p. S3:25]

During the survey, a determination of GFP consumption is made. This involves the contractor's action of incorporating GFP into an end item or consuming it in the

performance of the contract. This category of the survey is subject to a large degree of judgement and monitoring by the Property Administrator. Bill of materials, usage and scrap rates are checked to verify whether or not the contractor is efficiently using GFP.

A utilization review of GFP for its contractual intended purposes is also included in the survey. The contract must specifically address what the GFP should be used for. No other use is authorized unless approval is granted by the contracting officer in writing. [Ref. 23:p. 46]

An analysis of the contractor's maintenance practices is performed to assess the timeliness and quality of his actions. Proper maintenance by the contractor ensures efficiency in operation and extends the useful life of Government property. The contractor must keep up-to-date maintenance records on GFP that require preventive and corrective maintenance.

Physical periodic inventories of GFP by the contractor is another area where a compliancy assessment is made during the survey. The contractor must inventory the GFP in his possession as indicated by his established management procedures. Records are annotated with the date of the inventory, correct proper locations, inventory counts, and adjustments after inventories are completed. A description of the adjustment is also required. The Property Administrator

must be notified of the quantity, and dollar value of all adjustments. Records should be annotated to show that "record to property" and "property to record" checks were performed. [Ref. 24:p. 34]

If the prime contractor has his subcontractors utilizing GFP, then they are subject to the same controls as the prime. The prime contractor has the responsibility to monitor his subcontractors' compliance with established procedures. The prime contractor must show evidence of adequate surveillance actions over his subcontractors' GFP controls as part of the system survey.

The survey will include an evaluation of how well the contractor handles disposition of GFP. The contractor is required to disclose immediately any excess property for redistribution. His excess determination must be complete and accurate. Proper authorization must be acquired for disposition. Timely disposition of excess GFP is a essential requirement within the disposition category. The contractor will maintain a permanent GFP record that includes date of disposal, type of disposal action, and complete identification of the property dispositioned. [Ref. 23:p. S3:28]

Lastly, the survey must review the timeliness and accuracy of all required reports submitted by the contractor. Source data for the reports are evaluated for consistency and orderly formulation. This is the eleventh system survey

category. This category was recently added to the survey. Property Administrators are utilizing this category but the FAR change is still pending.

On completion of the survey, an evaluation of the contractor's performance adequacy within each category is made. Each category will be declared satisfactory or unsatisfactory. All working papers plus the evaluation summary results are recorded.

As stated previously, if a category is found unsatisfactory, written notification is forwarded to the contractor by the Property Administrator with a copy to the Administrative Contracting Officer. The notice will detail the discrepancies and site the applicable section of the Federal Acquisition Regulation with which the contractor is not in compliance. Conclusions, corrective action recommendations, and a corrective action completion date is stated in the notice. If the contractor does not correct the discrepancies within the period specified, the contracting officer has the authority to disapprove the contractor's property management system.

G. SUMMARY

This chapter outlined in general, the regulations, procedures, controls, and responsibilities for the management of GFP. The regulations and procedures are detailed and in

certain areas very difficult to understand. Therefore, contractors and the Government's personnel must have an in-depth knowledge of the regulations and procedures and their responsibilities to ensure a GFP management system operates efficiently. The system survey, as discussed above, is the primary surveillance method of determining suitability of the contractor's GFP controls. The system of Government property management is difficult and requires a teamwork effort in order to acquire and sustain a successful operation.

The following chapter will present the results of the survey conducted by means of interviews with property administrators and their contractor counterparts of the Defense Contract Administra-tion Services Region (DCASR), Los Angeles, California. Questions asked and their corresponding answers are listed and discussed.

IV. SURVEY RESULTS

A. INTRODUCTION

To collect the research background data for this study, all Government Property Administrators and their contractor counter-parts, from the DCASPRO's in the Los Angeles Region were interviewed in person. This sample of activities represent 6% of the total dedicated property administration offices in the DOD. The activities are:

- DCASPRO Hughes Aircraft
  Ground System Group
  Fullerton, Ca.

- DCASPRO General Dynamics
  San Diego, Ca.

- DCASPRO Ford Aeroneutronics
  Newport Beach, Ca.

- DCASPRO FMC
  San Jose, Ca.

- DCASPRO Westinghouse
  Sunnyvale, Ca.

- DCASPRO McDonnell Douglas
  Astronautic Co.
  Huntington Beach, Ca.

1. Assumptions

The researcher assumes that data gathered from the DCASPRO activities can be used to render reliable assessments about GFP management and control. The basis for this assumption is derived from the DOD established policy of standardized acquisition policy across all Services and other

DOD agencies. Government property management is a vital part of the DOD's acquisition organization. Therefore, this acquisition policy equally applies to Government property management.

A second assumption is that Property Administrators are adequately qualified to formulate opinions, make judgments, and provide recommendations concerning GFP management, controls, procedures, and regulations.

2. Interview Structure

The average interview lasted two hours. The questions in the survey were designed to surface deficiencies in managing GFP. Secondly, once a deficiency was presented, the interviewees were requested to offer their opinions or recommendations to correct the deficiency.

Issues and deficiencies were discussed freely but the responses mainly were prompted by five questions. They are:

- What are the principal deficiencies in the management of GFP?
- Are the majority of the deficiencies discovered through the system survey?
- Are the majority of the deficiencies new?
- Has corrective action on deficiencies been implemented and validated for adequacy and completeness to prevent future occurrences?
- What regulations hinder your GFP management operations?

B. RESPONSES

1. Question One

What are the principal deficiencies in the management of GFP?

Deficiency	Government Property Administrator (GPA)		Contractor Property Administrator (CPA)	
A. Contractor's poor record keeping	Yes	4	Yes	5
	No	2	No	1

Four GPAs and five CPAs agreed that poor records keeping was a principal deficiency in the management of GFP. In fact, this deficiency was ranked number two of all deficiencies mentioned as being the most problematic. The responses show a disagreement between a CPA and GPA at one activity concerning the deficiency. The GPAs stated that contractor's poor record keeping was a principal deficiency but the CPA did not agree. The majority of the GPAs appeared to be frustrated because the deficiencies found in the records category were recurring. Two GPAs and one CPA stipulated that poor record keeping was not a principal deficiency in their operations. Five GPAs had disapproved the contractor's records category of the system survey at least once during 1988 for poor records keeping. Listed below are the most common deficiencies noted:

. GFP was not located in accordance with property record. Numerous deficiencies of this type were found during location to record checks.

- Modification of agency peculiar property can create record losses of property if not properly documented. The contractor would upgrade the Government property and assign a new serial number without making proper notation on the original property records. During a system survey inventory, the original piece of property lost its identity and was considered a survey deficiency in records. Also, the newly modified part would be declared excess if there was no pertaining stock record card. A considerable amount of retracing of events is normally required to remedy the deficiency.

- Government Property records did not indicate unit prices of property. Contractors are unwilling to estimate unit prices even though the FAR requires them to do so when GFP is received without the unit price on the receipt documents. The contractors feared the possibility of over pricing an item. In the event of a loss or damage situation, if found liable, the contractor could be in a very awkward situation. The contractor may be required to reimburse the Government at the unsubstantiated unit price estimate.

- Inaccurate or incomplete issue and receipt record maintenance.

- Large backlog of transactions posting.

- CPAs' staff personal were not allowed to inventory GFP held by other departments in the contractor's operation. These departments inventoried the GFP and provided the result to the CPA. In several instances, these types of inventories produced inaccurate or incomplete information.

Each CPA had adequate procedures established. If the procedures were followed properly, the above deficiencies probably would not exist. The degree of record keeping deficiencies at each CPA site were predicated on the level of contractor personnel training in GFP controls and the capability of the contractor's computer system used to maintain GFP records. FAR requirements concerning GFP are the minimum necessary to operate a Government property management system.

The regulations do not describe the actual method to achieve these minimum requirements.

Deficiency	GPA		CPA	
B. Inadequate GFP storage	Yes	2	Yes	2
	No	4	No	4

Lack of adequate storage was indicated by two GPAs and CPAs as a principal deficiency in GFP management. Their comments concerning this deficiency were:

- The contractor's storage sites were old and poorly maintained allowing GFP to be exposed to the weather. The contractor was very reluctant to invest funds to upgrade or establish new facilities. On several occasions, storage facilities flooded after the roofs fell in causing considerable damage to the GFP.

- Some equipment was stored outside for extended periods of time. Under these conditions, the contractor waste money attempting to do preventive maintenance on the weather exposed GFP.

Deficiency	GPA		CPA	
C. Inadequate dispositioning	Yes	3	Yes	3
	No	3	No	3

There was a even split of three GPAs and three CPAs agreeing that inadequate dispositioning was a principal deficiency and three GPAs and three CPAs agreeing that it was not. The GPAs at the activities with this deficiency, addressed it as being recurring. Each CPA responding with a yes, had received an unsatisfactory performance report in the

disposition category during the 1988 system survey. Comments stated by GPAs and CPAs on this deficiency were:

- Contractor's engineering and production personnel were not sensitive to the needs of the CPAs to declare GFP as excess. Even though the property was not being utilized at the time, these individuals did not want to dispose of the property for fear of a possible future need.

- Contractor's and Government's contracting officer's policy of rolling GFP over to follow on contracts without identifying the need for the property caused property excesses. Their philosophy was "if the GFP was utilized initially it would be needed again." Excesses can occur very easily if this philosophy is used when a contractor goes from the development stage of a major weapon system procurement to production. It is certain that some GFP used during the development of a major weapon system will not be used during production. Therefore, rolling over GFP under the above circumstance would lead to excess GFP.

- Some major weapon systems receive many modifications during the development stage and occasionally after the first production lot. These modifications negated the need for some GFP. Under these conditions, the GFP should be declared excess and processed through the disposition procedures. The contracting officers for the Government and contractor, do not always see the necessity for analyzing the effects modifications have on GFP or even attempt to seek advice from the Property Administrators.

- While in the possession of contractors, GFP can become outdated or become so old it cannot be used. Many of the contractors' personnel are not aware of or refuse to take the time to notify the CPA to start disposition action on the property. Several incidents have occurred where GFP in this condition was disposed of improperly (scrapped) or simply kept in a store room and never used. These cases were uncovered during a system survey.

- Some GFP is issued for expenditure during major weapon system demonstration or testing. On occasions, some of the GFP issued is not expended or is simply damaged during the testing. All the damaged or non-expended GFP should be turned in for re-use or dispositioning. Instead, it is sometimes scrapped without proper authorization or stored away for use as "bench stock".

Deficiency	GPA		CPA	
D. Insufficient upper-management support.	Yes	0	Yes	4
	No	6	Yes	2

All GPAs and two CPAs were very positive about the support received from their upper-management. They commented that their upper-management was very knowledgeable, supportive and handled issues in a timely manner when brought to their attention. Four CPAs expressed serious concerns about upper-management support within their operation. Some of the comments about deficiencies in upper-management support were:

- The contractor's Government property division is under the accounting department. The immediate supervisor lacks sufficient knowledge and interest in GFP management. Thirty percent of the time in an average work week is spent explaining small Government property issues. The immediate supervisor takes the position of "I only want to hear about good news; fix the problems".

- Upper-management policies are slowly changing but currently the unwritten guidance is to provide the absolute minimum effort in support of their GFP system.

- The company's training on GFP procedures is deficient. The company is reluctant to invest funds to establish an adequate Government property awareness program. The contractor's GFP procedures only provide limited guidance on overall company training. The procedures are adequate to support the contractor's approved GFP management system. If the procedures are followed properly, GFP deficiencies would be limited. Top management has not initiated pressure on lower level managers to follow GFP procedures.

- Upper-management gets interested only when deficiencies are addressed to their level by the GPA's system survey report. Their emphasis is focused on the symptoms of inadequate upper-management support and not the causes.

- The people in the accounting department, including the GFP division, are only there for a short period of time. The accounting department jobs are utilized as entry level

positions and as a stepping-stone to other higher paying jobs within the organization. The company does notary to maintain personnel continuity within the department.

Deficiency	GPA		CPA	
E. Inability to maintained trained staff personnel	Yes	6	Yes	6
	No	0	No	0

There was unanimous agreement among each GPA and CPA that maintaining trained staff personnel was very difficult. The deficiency is derived from a shortage of qualified property managers within the industry and civil service. Once an individual is adequately trained in GFP policies and procedures, they seek higher income positions that are readily available. This also presents the issue of being in a continuous training mode within the Government's and the contractor's property administration system. The higher the knowledge level of property staff personnel, the more responsibilities they can assume. Increased reliance on staff personnel to manage the daily routine duties allow the CPA and GPA to concentrate more on planning, coordination of upper-management interaction and resolving policy issues. The effects of this training deficiency are increased by the deficiency of insufficient upper-management support.

Deficiency	GPA		CPA	
F. Personnel shortages	Yes	6	Yes	0
	No	0	No	6

There was not a staffing deficiency among the CPAs interviewed. The six GPAs had operations under-staffed by an average of two per activity. Each of the six GPAs stated:

- We are doing our work, although under-staffed, but at the expense of not allocating enough time for adequate planning, not performing some functions, and reduced one-on-one time with junior Property Administrators due to more involvement with daily routines. Also, this deficiency causes increased work load without any compensation or incentives which decreases morale.

- By operating efficiently, we provide justification for upper-management not to permit additional hiring. Our workload is increasing and our staff personnel have decreased, compared to past years, but we are still required to get the job done right and on time. It is a no win situation.

- The current Government's policy is to reduce overall spending. This can only mean that GPAs must accomplish even more with less and eventually at the cost of reduced efficiency.

Deficiency	GPA		CPA	
G. Lack of GFP warranty procedures.	Yes No	3 3	Yes No	3 3

An adequate GFP warranty procedure was not in place at three of the sites visited. Once GFP arrived at the contractor's plant, no guidance was established for contractor personnel to review the receipt documentation for warranty information and to make inquires or document the property records regarding warranty status. Three sites had adequate procedures in place to handle GFP warranties. Problems occurred mainly with GFP that was acquired by contractor in

bulk lots. These items are used in small quantities over a long period of time. If defects are discovered on several of the last remaining items in the lot, the warranty period would probably have expired. GFP is shipped from other Government agencies under warranty without proper warranty information on the shipping forms.

Deficiency	GPA		CPA	
H. Lack of contract preaward and postaward involvement	Yes No	4 2	Yes No	4 2

Only two GPAs and two CPAs were included in the preaward and postaward contract preparation and review respectively. The other Property Administrators were not involved and in some cases, did not want to be. There were many occurrences where copies of the contracts or modifications were received several months after the award. Once received by the Property Administrator, improper and missing GFP contract clauses were noted. Corrective action, requested by the Property Administrator, was forwarded to the contracting officer. The request was negatively received with slow or no action taken to correct the deficiencies. Some of the comments mentioned by the Property Administrator with this deficiency were:

. Time management is crucial to running an efficient Government property division. Manning at the activities are below minimum levels. Some functions or actions are not performed by choice to maintain an overall efficient

operation. Preaward and postaward reviews are often omitted.

. The contracting officers are reluctant to seek the involvement of the Property Administrator. Some contracting officers feel that they are competent enough to include the proper GFP clauses in the contract. Contractors personnel feel that review by their Property Administrators would only slow up the contract award process.

Deficiency	GPA		CPA
I. Lack of GS grade level parity	Yes	6	n/a
	No	0	n/a

Each of the GPAs indicated that there is an inconsistency with the GS grade structure for GPAs in the Navy, Army and DCAS organizations versus those of the Air Force. The Navy, Army and DCAS Property Administrators are GS-12 or lower at the Plant Representative Office level. All Air Force GPAs are GS-13. To add to the ill feelings caused by this difference, the contractors Property Administrators' salary is almost twice as much as a GPA's. Some feelings expressed about this deficiency are outlined below:

. Although the salary is not a direct deficiency in the management of GFP, it certainly has a direct effect on morale and maintaining qualified personnel. The higher salary for contractors' property management plus the higher grade and salary in the Air Force GPA positions causes high turnover percentages within the GPAs positions in the Navy, DCAS, and Army property organizations.

. One GPA within the region recently accepted a position at an AFPRO because of the increase in salary and grade.

2. **Question Two**

Are the majority of the deficiencies discovered through the system survey?

GPA		CPA	
Yes	2	Yes	3
No	4	No	3

Four of the GPAs and three CPAs stated that the majority of deficiencies noted were discovered while performing random reviews of the GFP management control procedures. These reviews included observation of actual GFP procedural practices and interviews with the contractor personnel. Two GPAs and three CPAs utilized the system survey as the primary method for detecting deficiencies.

The responses from the Property Administrators show a moderate difference in the method of detecting GFP management deficiencies. The majority of the Administrators favored the random review method as opposed to the periodic system survey. Their use of the system survey was a secondary standard procedure for surfacing deficiencies.

3. **Question Three**

Are the majority of the deficiencies encountered new?

GPA		CPA	
Yes	0	Yes	0
No	6	No	6

There was an unanimous conclusion by the Property Administrators that the deficiencies found were recurring. The majority of the cases were not in the same category of GFP, for the same type of GFP or under similar circumstances. For example, a quantity deficiency may be found in the record category for special test equipment (STE) during a survey and on a second survey, a record category price deficiency might be surfaced by a random review with industrial plant equipment (IPE). The record deficiency is recurring but in two separate GFP types and under different circumstances.

4. Question Four

Have corrective actions on the deficiencies been implemented and validated for adequacy and completeness to prevent future occurrences?

GPA		CPA	
Yes	6	Yes	6
No	0	No	0

Each Property Administrator was in compliance with the FAR concerning corrective action procedures. Once a deficiency was discovered by the GPA and notification provided to the CPA, corrective action was performed within the standard 60 day corrective action period. Corrective actions were validated, by the GPA, for completeness and assessed for the possibility of the deficiency recurring. Rarely did a CPA request

additional time to complete the corrective action. Each CPA, with one exception, had a disapproved category, but was operating under an approved GFP management system. GPAs and CPAs had distinct understandings with each other that the GFP management system would be disapproved if corrective actions were not performed in the time specified.

5. **Question Five**

What regulations hinder your GFP management operations?.

	Regulation	GPA		CPA	
A.	FAR 45.306-2(a) and	Yes	4	Yes	5
	52.245-17. (Special Tooling)	No	2	No	1

Four GPAs and five CPAs indicated that the above GFP regulations should be evaluated for possible changes. Two GPAs expressed no concern over the regulations. The Property Administrators in favor of the regulation changes had the following comments:

- FAR allows the contracting officer the right to take title to Special Tooling (ST) at his discretion or when it is favorable to the Government. Many Property Administrators want the contracting officer to make this decision at the time of purchase or after completion of manufacturing the ST by the contractor. If the Government takes title up front, there is no guessing about ownership.

- FAR also states that the Government should ordinarily take title to ST. In the event that the Government does not assume title to the ST initially, the situation causes confusion if the item identified as ST is lost or damaged and the Government later wishes to take title. This is very difficult to sort out.

. Accounting for GFP under the Special Tooling clause is very confusing under the condition where the Government decides not to take title.

	Regulation	GPA		CPA	
B.	FAR 52.245-2 (Willful misconduct or lack of good faith)	Yes No	3 3	Yes No	0 6

All 6 CPAs agreed that this regulation should stand as stated in the FAR. The GPAs were split three against and three for changing the regulation which allows the contractor a great deal of leverage in his defense concerning loss of GFP. Top management personnel appear to be guilty of willful misconduct or lack of good faith which contributes to the loss or damage of GFP. The GPAs who agreed to a possible regulation change appeared to be discouraged about some cases where the contractor was relieved of liability for damage to GFP. They had well-documented cases of contractor negligence dealing with damaged GFP, but could not prove willful misconduct on the part of top management. The cause of the damaged GFP was attributed to supervisory personnel.

	Regulation	GPA		CPA	
C.	DOD FAR Supplement 45.608-2 (GFP Screening)	Yes No	6 0	Yes No	6 0

Each of the Property Administrators concurred that the regulation for GFP screening process should be changed. The first aspect of the deficiency in the screening process is timing. It can take up to 90 days in some cases to complete the process. There are three separate 30 day screening periods that excess GFP can go through. The second aspect is the dollar amount of GFP processed through the screening process. Some excess GFP costing less than $50.00 must be screened for possible use by other Government agencies. The FAR does not indicate a minimum dollar amount for excess GFP screening. There were several documented cases where it was not cost effective to process excess GFP through screening.

C. SUMMARY

Each Property Administrator was very professional and extremely helpful during the interviews. The majority of the GPAs appeared to be over worked and under staffed. Eventually, this type of situation can lead to early "burn out" of all people concerned within the Government property management area.

Some of the GPAs and CPAs felt that their skills were not utilized during the early stages of contract development. Ironically, two GPAs indicated that they could not afford the time away from their current daily routines to handle the

additional workload of preaward and postaward contracts reviews plus review each modification that contained GFP.

The level of efficiency within each contractor's system of Government property management was directly related to the interest of top management in each company along with the amount of funds they were willing to invest in their property system. It was observed that the most effective management system had a highly developed computer system controlling Government property records and had direct interest of top management. The issue is whether or not the contractor's top management wanted to make the large investment of time and dollars in their GFP operation which will probably reduce profits.

GPAs and CPAs were forced to operate under the above conditions and attempted to efficiently operate their GFP management system. Some CPAs were under a great deal of stress caused by their immediate supervisor inability and lack of knowledge about GFP operations. The GPAs were not faced with this problem, but some were directly effected because of the difficulties experienced by the CPAs and the overall effect on the property management system as a whole.

V. CONCLUSIONS, RECOMMENDATIONS AND AREAS FOR ADDITIONAL RESEARCH

A. GENERAL

Property Administrators for the Government and contractor were very concerned about the past poor image of GFP management and control. There has been a great deal of progress made since the 1970's and early 1980's where there were overwhelming cases of loss, misuse, and unaccounted for GFP. The Property Administrators successes were obvious because each had an approved Government property management system. The approved systems were not developed by compromising the regulatory requirements but established by ensuring they were properly implemented and monitored for compliance. Each Property Administrator was very candid about the continued need for more improvements in GFP management.

B. CONCLUSIONS

1. **The single most important requirement for a successful Government property management system is a strong and honest working relationship with open communication between the Government's and contractor's Property Administrators.**

The Administrators noted that they were always conscious of the necessity to have a relationship that was and appeared to be at "arm's length." Two situations were noted where a contractor's Property Administrators were fired because of what the present Government Property Administrators

determined to be a distinct lack of communication between the Government's and contractor's Property Administrators. In one case the Government's Property Administrator was retired. Even though the contractor's ultimate goal is to maximize profit as opposed to the Government's goal of receiving a quality product or adequate service at a reasonable price, there still must be a common professional work effort of cooperation to ensure overall efficiency.

2. **The GS grade parity deficiency in Government property management in conjunction with large Government cuts creates a situation of requiring Property Administrators to "do more with less" and will eventually drive the experienced and knowledgeable Government Property Administrators to more lucrative employment opportunities within the Air Force and industry.**

There is a growing concern among the Government Property Administrators about the inconsistent GS grading between the Air Force and the other Services and DLA. As mentioned earlier, the Air Force Property Administrators are GS-13s and in the other Services they are GS-12s.

For continued success in the GFP management arena, the GFP personnel knowledge base must be stabilized. Otherwise, the situation will cause the gains of the present to erode and create again some of the major deficiencies of the 1970's and early 1980's.

3. **The researcher concludes that the deficiency in maintaining trained staff personnel is caused by a low degree of job importance and prestige, a lack of incentives and limited advancement opportunities in the Property Administrator staff positions.**

The Property Administrators are faced with a serious problem of an unstable staff. Once their staff personnel are trained and capable of handling greater degrees of responsibility, they are hired away to better paying positions. This inherently places the Property Administrator in a continuous training mode with an inexperienced staff.

The contractors' Property Administrator staff personnel, and in many cases their immediate supervisor, work in the GFP operation temporary to gain experience for other higher paying positions. This situation is directly related to some of the recurring deficiencies. It is a matter of "inventing the wheel" over and over again due to the lack of experienced contractor and Government property staff personnel.

The somewhat permanent salary and incentive structure of the Government perpetuate the situation. Prestige of a job is derived from an individual's perceived sense of job importance which is fostered partly by job salary and incentives.

4. **From the results of this study, the researcher concludes that there are nine principal deficiencies in the management of GFP.**

The nine principal deficiencies are listed below:

- Maintaining trained staff personnel
- Contractors' inaccurate record keeping
- Inadequate disposition of GFP
- Lack of GFP warranty procedures

- Lack of contract preaward and postaward involvement
- Personnel shortage (GPAs only)
- GS grade level parity (GPAs only)
- Insufficient-upper management support (CPAs only)
- Inadequate GFP storage

The Property Administrators unanimously indicated that maintaining trained staff personnel was the number one principal deficiency in the management of GFP. Nine out of the twelve Property Administrators indicated that contractors' inaccurate record keeping was ranked second among the deficiencies noted. Lack of contract preaward and postaward involvement ranked third among the deficiencies supported by eight Property Administrators responses. Six Property Administrators agreed that inadequate disposition of GFP, lack of warranty procedures, personnel shortages and GS grade level parity were ranked fourth. Insufficient upper-management support and inadequate GFP storage ranked fifth of the deficiencies noted. These two deficiencies were confirmed by four out of the twelve Property Administrators interviewed.

C. RECOMMENDATIONS

1. To eliminate some of ill effects of the deficiencies of maintaining trained staff personnel and GS grade level parity, the researcher recommends providing end of the year superior performance monetary awards to senior and staff GFP personnel.

This recommendation encourages high performance and provides an incentive for individuals to continue employment with the Government. Although the end of the year awards cannot make up the difference in salary between a GS-12 and GS-13, it certainly can ease some of the tension that currently exist among the Government Property Administrators. This award can also assist in remedying the personnel shortage deficiency by helping to stabilizing the personnel base at its current level. The only means to solve the deficiency is to hire additional Government Property Administrators to handle the work load. The key beneficial effect of the award would be achieved by allowing the amount to increase sizably each year if superior performance is maintained. Within the contractors' GFP organization, this recommendation applies equally. The incentive annual award dollar amount must be competitive with departments.

The most efficient measure to solve the deficiencies of maintaining trained staff personnel and GS grade level parity in the Government's GFP organization would be to raise the highest grade level for GFP staff personnel to GS-12. Next, the Government Property Administrator position should be raised to the GS-13 level. The salary and prestige of a GS-12 or GS-13 position for staff and senior GFP personnel respectively can certainly encourage an individual to stay within the GFP organization. This recommendation is probably the least likely

likely to be implemented due to the Government's overall policy of cost reduction. Secondly, the GS rating ceiling for staff and senior Government Property Administrators also presents a difficult problem to overcome.

2. **Improve the contractor computer systems for managing GFP. This recommended measure is to resolve the deficiency of contractors' inaccurate record keeping. Bar coding of GFP can also assist in correcting this deficiency.**

To get the contractor to invest in upgrading his GFP computer system, the GPA should collect data for a cost benefit analysis. The anticipated positive results can be used to show the contractor that money will be saved in the long run. These data should consist of record errors commonly made from manual posting of inventory and time devoted to manually complying GFP record information for a variety of internal and required Government GFP reports. Bar coding GFP is a second solution to remedying the recording keeping deficiencies. Hand held bar coding reading devices are available and can be use to drastically reduce inventory time and counting errors. Some of the hand held reading devices can be connected directly to a computer for reading in the results of an inventory count. Bar coding is a measure easily implemented. Both measures presented to upper-management in a clear and concise manner should prove effective in getting funding to upgrade the GFP computer system. The GPA's approval authority over the contractor's GFP management system can be an effective tool in

resolving some deficiencies. For example, the GPA can direct the contractor to establish a procedure in his GFP management system that allows GFP inventories to be accomplished by the CPAs or his staff personnel.

3. **The researcher recommends that the GPA seek out upper-management support to assist in solving the CPA's insufficient upper-management support along with the inadequate dispositioning deficiency.**

Solving the deficiency of inadequate upper-management support should help resolve the inadequate dispositioning deficiency. Again, the GPA should collect data that will convince the CPA's upper-management that their support is required. Cost data should be collected concerning deficiency issues presented under inadequate dispositioning and insufficient upper-management support listed in chapter IV. This information should be briefed by the GPA's upper management to the contractor's upper-management to show why their increased involvement is necessary to reduce cost. After acquiring increased contractors upper-management support, their action can bring pressure on the company's employees to become more aware of GFP procedures. This new awareness on GFP procedures will eliminate deficiencies like inadequate dispositioning of GFP which is mainly a procedural compliance issue.

4. **At a minimum, the researcher recommends that GPAs and CPAs should review the proposed contract prior to award to solve the deficiency listed below.**

Lack of preaward and postaward involvement.

The preaward review can save time and prevent confusion by surfacing GFP deficiencies prior to contract signing. This action will probably eliminate the need for many contract modifications caused by GFP deficiencies. If preaward reviews are efficiently performed, then the need for postaward review is not as important. This recommendation can be cost beneficial to both the Government and contractors. If time can be saved, then costs will be reduced.

5. **To eliminate the lack of warranty procedures deficiency, each contractor should have the responsibility of ensuring shipment documentation on GFP includes warranty information if applicable. Stock record cards should also be annotated to show warranty periods on GFP.**

Contractors' receipt personnel must be trained to look for warranty information on GFP receipt documentation. GFP under warranty must be checked for proper operating condition on receipt. Labels should be affixed to all GFP indicating to users that the property is under warranty. In the event of a malfunction, users should be trained to take immediate action to get the property returned for repair under the warranty. A review of contractors' warranty procedures should be a part of the annual system survey review. These improvements can save a great deal of money in repair costs paid by the Government needlessly due to lack of warranty information.

6. **It is recommended that any property damage or lost due to inadequate GFP storage be pursued by the Government Property Administrators for reimbursement by the contractor under willful misconduct on the part of top management.**

Top management is certainly responsible for the adequacy of GFP storage facilities. This recommendation, if adopted, will force contractors to improve their storage facilities or acquire insurance at their own expense to protect GFP stored in inadequate facilities.

7. **The Government should make a decision as soon as possible on whether or not to take title to all special tool (ST) and special test equipment (STE) that is manufactured or purchased by the contractor.**

This recommendation will clear up the confusion of GFP ownership under the Tooling clause. In keeping with the current Government's policy, the Government should not take title to the property.

8. **The FAR should be modified to state that the contractor will be liable for the loss or damage to GFP if willful misconduct or lack of good faith on the part of a company's supervisory personnel can be proved.**

The Government is clearly at a disadvantage with the FAR stipulation concerning willful misconduct on the part of top management regarding lost or damaged GFP. The regulation should be change to provide a more reasonable means for the Government to recover the cost of lost or damaged GFP.

9. **The FAR should be changed to indicate that excess GFP must be greater than $100.00 in value to be processed through the disposition procedures. Secondly, the researcher recommends that no changes be made to the regulation concerning the three 30 day screening periods.**

The resident Plant Clearance Officer should have approval authority to override the dollar limitation if it is in the best interest of the Government. The three 30 day screening periods are the basis for a screening priority system. In order to maintain the integrity of the priority rights to the excess property, the three 30 day screening periods should not be changed.

D. AREAS FOR ADDITIONAL RESEARCH

The following are recommended topics for further research:

1. Research the principal deficiencies in the management of GFP at the DCASMA activities within DCASR Los Angeles.

2. Research the principal deficiencies in the management of GFP within another DCAS region at the Plant Representative Office and compare the results to the results in this study.

APPENDIX A

Definitions

1. Contractor Acquired Property: This is property produced or otherwise provided by the contractor for the performance of a contract, title to which is vested in the Government. [Ref. 1:p. 45-1]

2. Government Furnished Property: Property in the possession of, or acquired directly by the Government and subsequently delivered or made available to the contractor. It consists of the five separate categories--material, special test equipment, special tooling, military property and facilities. [Ref. 1:p. 45-1]

3. Real Property: For purposes of accounting classification means (1) land and rights therein, (2) ground improvements, (3) utility distribution systems, (4) buildings, and (5) structures. [Ref. 1:p. 45-1]

4. Special Test Equipment: Means either single or multipurpose integrated test units engineered designed, fabricated or modified to accomplish special purpose testing in the performance of the contract. It does not include: (1) material, (2) special tooling, (3) buildings and nonseverable structures, and (4) plant equipment items used for plant testing purposes. [Ref. 1:p. 45-1]

5. Special Tooling: All jigs, dies, fixtures, molds, patterns, taps, gauges, other equipment and manufacturing aids, and all components of these items which are of such a specialized nature that, without substantial modification or alteration, their use is limited to the development or production of particular supplies or parts thereof or to the performance of particular services. [Ref. 1:p. 45-1]

6. Facilities: Industrial property (other than material, special tooling, military property, and special test equipment) for production, maintenance, research, development, or test, including real property and rights therein, buildings, structures, improvements, and plant equipment. [Ref. 1:p. 45-5]

7. Military Property: Means Government owned personal property designed for military operations. It includes end items and integral components of military weapons

ment which is not readily available as a commercial item. It does not include Government material, special test equipment, special tooling or facilities. [Ref. 1:p. 45-9]

8. Material: Property that may be incorporated into or attached to a deliverable end item or that maybe consumed or expended in performing a contract. It includes assemblies, components, parts, raw and processed materials, and small tools and supplies that may be consumed in normal use in performing a contract. [Ref. 1:p. 45-5]

9. Contracting Officer: A person with the authority to enter into, administer, and or terminate contracts and make related determinations and findings. The term includes certain authorized representatives of the contracting officer acting within the limits of their authority as delegated by the contracting officer. Administrative Contracting Officer (ACO) refers to a contracting officer who is administering contracts. [Ref. 1:p. 42-2]

10. Property Administrator: The individual designated by appropriate authority to administer the contract requirements and obligations relative to Government property. He is an authorized representative of the contracting officer. [Ref. 1:p. 45-6]

11. Plant Clearance Officer: An authorized representative of the contracting officer assigned responsibility for plant clearance. [Ref. 1:p. 45-20]

12. Plant Clearance: All action relating to the screening redistribution, and disposal of Government property from a contractor's plant or work site. [Ref. 1:p. 45-20]

13. Scrap: Property that has no reasonable prospect of being sold except for the recovery value of its basic material content. [Ref. 1:p. 45-11]

APPENDIX B

May 26, 1988

The Honorable Frank C. Carlucci
The Secretary of Defense

Dear Mr. Secretary:

On March 21, 1988, we testified on Department of Defense (DOD) management of government property furnished to Defense contractors before the Senate Committee on Governmental Affairs. Our testimony focused on three area: (1) the effectiveness of DOD's implementation of the basic government policy of relying on contractors to provide the property needed for government contracts, (2) the adequacy of management controls established to validate and approve contractor requisitions, and (3) the adequacy of government oversight over property in the possession of contractors.

Government property provided to contractors includes both material and equipment. Material includes parts, components, assemblies, raw materials, and supplies that (1) may be incorporated or attached onto such products as tanks and ships or (2) may be expended or consumed in performing a contract, such as office supplies. Equipment includes plant and special test equipment.

In 1986, we reported to you that DOD had not adequately implemented a program established in the early 1970's that was designed to phase down government furnished equipment in the possession of contractors. Also in 1986, we reported to the Chairman, Senate Committee on Armed Services' Task Force on DOD Inventory management, that DOD had a wide range of inventory management problems throughout the supply system.

As a result of that report, the Task Force and the Senate Committee on Governmental Affairs asked us to identify the magnitude of these problems and examine several aspects in more detail. One of the areas we were asked to specifically address involved the adequacy of management controls over contractors obtaining material from the government.

We have issued, or will be issuing, separate reports on the military service's and Defense Logistics Agency controls over and accountability for property provided to contractors.

Based on our reviews in each service and the Defense Logistics Agency, we concluded that several factors have contributed to long-standing problems in controlling and accounting for material furnished to contractors. First, DOD has not effectively implemented the basic government policy of relying on contractors to provide the material needed for government

for best interest to provide needed material. Second, DOD and service regulation requiring contractors to account for and safeguard government material in their possession and for the government to oversee the contractors' management of this material have not been adequately enforced. Fourth, DOD and the services have made slow progress in developing and implementing financial property accounting systems. Most of the problems associated with providing government furnished material to contractors are also applicable to government furnished equipment.

Our reports on the results of our reviews of each military service and DLA contain our specific findings and recommendations. The services have agreed with all of our recommendations to date and have identified various actions to implement them. Also, DOD and the services have taken actions to address the problems and recommendations made in past audit reports by us and DOD audit organizations on government these actions are implemented in a timely fashion, we recommend that you:

. establish specific milestones for each action
. direct your Inspector General to independently monitor and report on the progress made by the services to implement each action.

As you know, U.S.C. 720 requires the head of a federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report, and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Chairmen, House and Senate Committees on Appropriations and Armed Services, House Committee on Government Operations, and senate Committee on Governmental Affairs; the Director, Office of Management and Budget; and other interested parties.

Sincerely yours,

Frank C. Conahan
Assistant Comptroller General

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